



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2017 Biennium

Bill #	HB0156	Title:	Revise tax laws related to pollution control equipment
Primary Sponsor:	Miller, Mike	Status:	As Amended in Senate Committee

- | | | |
|--|---|--|
| <input checked="" type="checkbox"/> Significant Local Gov Impact | <input type="checkbox"/> Needs to be included in HB 2 | <input checked="" type="checkbox"/> Technical Concerns |
| <input type="checkbox"/> Included in the Executive Budget | <input checked="" type="checkbox"/> Significant Long-Term Impacts | <input type="checkbox"/> Dedicated Revenue Form Attached |

FISCAL SUMMARY

	<u>FY 2016 Difference</u>	<u>FY 2017 Difference</u>	<u>FY 2018 Difference</u>	<u>FY 2019 Difference</u>
Expenditures:				
General Fund	\$0	\$0	\$0	\$0
State Special Revenue	\$0	\$0	\$0	\$0
Revenue:				
General Fund	(\$65,000)	(\$132,000)	(\$179,000)	(\$226,000)
State Special Revenue	(\$4,000)	(\$9,000)	(\$11,000)	(\$14,000)
Net Impact-General Fund Balance:	<u>(\$65,000)</u>	<u>(\$132,000)</u>	<u>(\$179,000)</u>	<u>(\$226,000)</u>

Description of fiscal impact: HB 156, as amended, exempts pollution control and carbon sequestration equipment placed in service after January 1, 2014 (TY 2015) from property taxation. Equipment related to the sequestration of carbon dioxide placed in service after January 1, 2014 is granted a 50% reduction in tax rates for the first 15 years. Once the revenue impacts take full effect, the bill would reduce the general fund revenue by approximately \$405,000 in the 2019 biennium and reduce the university 6 mill special revenue fund by approximately \$25,000 for that same period.

FISCAL ANALYSIS

Assumptions:

Department of Revenue

- The bill, as amended, exempts pollution control and equipment used for the capture of carbon placed in service after January 1, 2014. Sequestration equipment is granted a rate reduction for the first 15 years after

completion. These types of property are currently classified as class 5, class 8 or class 15 for property tax purposes.

2. Under current law, class 5 air and water pollution control equipment must be certified by the Department of Environmental Quality, and class 15 carbon sequestration property must be certified as having met prevailing wage standards or be certified by DEQ to qualify as class 15 property.
3. Qualifying carbon sequestration equipment must be certified by the Board of Oil and Gas Conservation in order to receive the rate reduction.
4. The table below shows the market value of pollution control equipment and carbon sequestration property in their current property classification. Tax years 2015 through 2018 were estimated using the growth rates in HJ 2 as extended by OBPP for TY 2017 and TY 2018.

Estimated Market Value of Pollution Control and Class 15 Property Under HB 156 as Amended (\$ million)			
Year	Class 5	Class 8*	Class 15
TY 2014	\$285.897	\$310.042	\$117.162
TY 2015	\$297.852	\$325.854	\$117.162
TY 2016	\$310.308	\$342.473	\$117.162
TY 2017	\$316.203	\$357.599	\$117.162
TY 2018	\$322.211	\$373.422	\$117.162

*Estimated values based on total Class 8 growth and TY 2002 pollution control data.

5. The class 8 value was estimated to be a function of the amount of class 5 personal property pollution control equipment in 1999, and the growth of class 8 from 1999. The 1999 data is relevant because that is the last year that the class 5 rate was below the class 8 rate, however, this data was not available until 2002. Growing the 2002 market value of class 5 personal property pollution control equipment by the growth rate experience of class 8 property provides an estimate for the pollution control equipment that is currently classified as ordinary business equipment in class 8.
6. It is assumed that the annual change in value for these types of property is a result of new property. This new property is therefore assumed to be the qualifying property placed in service after January 1, 2014. The table below shows the change in market value for the three classes of property relative to TY 2014, which is assumed to equal the value of equipment, placed in service after December 31, 2014.

Change in Market Value (Millions \$)			
Year	Class 5	Class 8	Class 15
TY 2015	\$11.955	\$15.812	\$0.000
TY 2016	\$24.411	\$32.431	\$0.000
TY 2017	\$30.307	\$47.558	\$0.000
TY 2018	\$36.314	\$63.380	\$0.000

7. The table below shows the average tax rates that are used to determine taxable value for the three classes of property.

Tax Rate			
Year	Class 5	Class 8	Class 15
TY 2015	3.00%	2.04%	3.00%
TY 2016	3.00%	2.04%	3.00%
TY 2017	3.00%	2.04%	3.00%
TY 2018	3.00%	2.04%	3.00%

8. The reduction in tax rates are multiplied by the estimated market value. The following table shows the estimated amount of taxable value for the affected property.

Estimated Taxable Value of Pollution Control Equipment			
Year	Class 5	Class 8	Class 15
TY 2015	\$0.359	\$0.322	\$0.000
TY 2016	\$0.732	\$0.660	\$0.000
TY 2017	\$0.909	\$0.968	\$0.000
TY 2018	\$1.089	\$1.290	\$0.000

9. The taxable value is then multiplied by the 101 state mills to determine the decrease in property tax revenue as a result of HB 156.

State Tax Revenue (101 mills)			
Year	Class 5	Class 8	Class 15
TY 2015	\$0.036	\$0.033	\$0.000
TY 2016	\$0.074	\$0.067	\$0.000
TY 2017	\$0.092	\$0.098	\$0.000
TY 2018	\$0.110	\$0.130	\$0.000

10. This decrease in revenue is distributed proportionally to the mills for the university mills (6) and the state general fund mills (95).

Department of Environmental Quality (DEQ)

11. HB 156, as amended, would change the date of the tax exemption and would limit this tax exemption to a period of 10 years. HB 156, as amended, also clarifies that carbon capture is included in the definition of pollution control equipment and is therefore subject to certification by DEQ. Pipelines used for the transport of carbon dioxide for sequestration purposes already require certification by DEQ and the Board of Oil and Gas Conservation would be responsible for certifying carbon sequestration equipment under this bill, as amended.
12. DEQ currently has rules in place governing the certification of air and water pollution control equipment as well as pipelines used for the transport of carbon dioxide. Any changes that would be necessary to cover carbon capture would not be significant and would be completed using existing DEQ resources.
13. DEQ is unable to determine how many, if any, requests for certification of carbon capture equipment will be received or if extending the time period to include equipment installed in 2014 will increase the number of requests received. DEQ assumes that HB 156, as amended, will not materially increase the number of certification requests that will be submitted. Therefore, DEQ assumes that this bill, as amended, will have no fiscal impact on the department.

	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>
<u>Fiscal Impact:</u>	<u>Difference</u>	<u>Difference</u>	<u>Difference</u>	<u>Difference</u>
Department of Revenue				
<u>Expenditures:</u>				
TOTAL Expenditures	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<u>Funding of Expenditures:</u>				
General Fund (01)	\$0	\$0	\$0	\$0
State Special Revenue (02)	\$0	\$0	\$0	\$0
TOTAL Funding of Exp.	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<u>Revenues:</u>				
General Fund (01)	(\$65,000)	(\$132,000)	(\$179,000)	(\$226,000)
State Special Revenue (02)	(\$4,000)	(\$9,000)	(\$11,000)	(\$14,000)
TOTAL Revenues	<u>(\$69,000)</u>	<u>(\$141,000)</u>	<u>(\$190,000)</u>	<u>(\$240,000)</u>
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>				
General Fund (01)	(\$65,000)	(\$132,000)	(\$179,000)	(\$226,000)
State Special Revenue (02)	(\$4,000)	(\$9,000)	(\$11,000)	(\$14,000)

Effect on County or Other Local Revenues or Expenditures:

1. This legislation has the potential to shift local taxes from pollution control and carbon sequestration property to other classes of property in levy districts with reductions in taxable value. Affected local government jurisdictions mills will adjust under the provisions of 15-10-420 MCA. Local school mills will adjust under the provisions of the school funding statutes in Title 20, MCA. On a statewide basis, the total local government and school district tax shifts are roughly four times the state general fund impacts.
2. In TY 2014, statewide average local mills for the property affected by HB 156 were 458.38. The estimated taxes that could be shifted to other taxpayers are presented below.

Year	Estimated Local Tax Shift (\$ million)		
	Change in Taxable Value	Local Mills	Tax Shift
TY 2015	(\$0.68)	458.38	(\$0.312)
TY 2016	(\$1.39)	458.38	(\$0.638)
TY 2017	(\$1.88)	458.38	(\$0.861)
TY 2018	(\$2.38)	458.38	(\$1.091)

Long-Term Impacts:

1. There are projects in development that may be able to qualify for property tax exemptions under the provisions of this bill. The impacts of these projects and their potential exemptions have not been contemplated as part of this analysis. As a result, due to the lack of precise data on pollution control equipment, the long-term fiscal impact is understated.

*Sponsor's Initials*_____
*Date*_____
*Budget Director's Initials*_____
Date